

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-319-W

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SC PUBLIC SERVICE
COMMISSION

IN RE:

Application of South Atlantic Utilities, Inc.)
for Approval of an Increase in Rates and Charges)
for the Community Water System at May River)
Plantation in Bluffton, South Carolina)
_____)

DIRECT TESTIMONY OF
THOMAS SMITH

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas A. Smith, III. My business address is 621 Stephenson Avenue, Post Office Box 13705, Savannah, Georgia 31416.

Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as the Vice President of the Applicant, South Atlantic Utilities, Inc. ("South Atlantic" or "the Company"). I have been employed in this position since 1990.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to sponsor the Company's application for an adjustment of certain rates and charges for the provision of water services. Also, I will be providing the Commission with an overview of the Company and its operations, including the area in which it is authorized to provide service, an outline of the history of

1 the utility, a description of the facilities used and useful to the Company and some of the
2 expenses incurred in providing water service, and an explanation of the Company's need
3 for rate relief.
4

5 **Q. WHAT IS YOUR WORK EXPERIENCE AND BACKGROUND WITH SOUTH**
6 **ATLANTIC?**

7 A. I have worked in various capacities with South Atlantic since approximately
8 1970. In that year, I began working for the Company primarily assisting my father, who
9 founded South Atlantic in 1968, with the construction of various water systems. Over the
10 years, my summer jobs entailed working on the Company's maintenance crew and I was
11 directly involved in building water systems in Georgia. As well, in 1973, I assisted the
12 Company in constructing the May River System in South Carolina. After graduating
13 from the Georgia Institute of Technology with a degree in Industrial Management and
14 returning to Savannah, Georgia, I began my employment as General Manager for both
15 South Atlantic and a sister water company, Chatham Water Company ("Chatham"). I
16 served in this capacity from approximately 1989 to 1998 where I was responsible for all
17 maintenance of the system, accounts payable and accounts receivable.
18

19 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES IN YOUR CURRENT POSITION?**

20 A. Currently, I manage the Company's facilities including overseeing water testing
21 and inspecting water systems and well sites. Additionally, I perform these services for
22 three other water companies which are sister corporations of South Atlantic: Chatham,
23 Middle Georgia Water Company and Coastal Georgia Water Company. These four

1 companies provide water services to approximately 10,000 customers located primarily
2 in Georgia.

3
4 **Q. COULD YOU PROVIDE INFORMATION REGARDING SOUTH ATLANTIC**
5 **AND THE SERVICES IT PROVIDES?**

6 A. South Atlantic Utilities was formed in 1968 by my father, Thomas A. Smith, Jr.,
7 and his partner Tommy Miller for the purpose of installing, monitoring and operating
8 private water systems within 100 miles of Savannah, Georgia. During the growth years
9 of 1968 to 1973, the Company expanded and projects were installed and purchased in the
10 surrounding Georgia counties. In 1976, my father took over the majority of the
11 Company's operations and continued to grow the systems. South Atlantic currently
12 provides water service to over 10000 customers located in both South Carolina and
13 Georgia. In South Carolina, the Company provided service to twenty six (26) customers
14 during the test year. These customers are located in the May River Plantation
15 Subdivision and are served by the Company's May River Plantation water system. These
16 customers are located in the Company's Commission approved service area which is
17 shown on Exhibit 11 of the Application. Further, customers are billed monthly as
18 demonstrated by the sample bill included with the Application as Exhibit 14.

19
20 **Q. PLEASE DESCRIBE THE PLANT AND FACILITIES WHICH COMPRISE THE**
21 **WATER SYSTEMS IN THE SERVICE AREA?**

22 A. The water system consists of water mains and distribution pipes which supply
23 water to customers from a single-source deep drilled well. Additionally, the system

1 utilizes a 5000 gallon supply tank to ensure adequate capacity and pressure to the
2 customers. In order to accurately measure customers' water usage and as part of the
3 Company's program to reduce costs while increasing revenues, the Company installed
4 water meters in 1992.

5
6 **Q. WHEN WAS A GENERAL RATE INCREASE LAST REQUESTED BY THE**
7 **COMPANY?**

8 A. The Company last filed an application for a general rate increase on July 13,
9 1992. By Order No. 92-1037, dated December 16, 1992, in Docket No. 91-494-W, the
10 Commission granted the Company rate relief and the increased rates became effective on
11 December 16, 1992.

12
13 **Q. WHY IS SOUTH ATLANTIC REQUESTING RATE RELIEF AT THIS TIME?**

14 A. For the test year ended December 31, 2006, South Atlantic earned on a per book
15 basis a (13.28%) operating margin (loss) and experienced a net loss of (\$1,255). This is
16 based upon per books revenues of only \$9,451 and expenses of \$10,706. Without rate
17 relief, South Atlantic will become unable to meet its financial obligations. Such a
18 scenario places in jeopardy the Company's ability to continue to provide safe, reliable
19 and efficient water utility services to its customers.

20
21 **Q. PLEASE SUMMARIZE THE RATE CHANGES AS PROPOSED IN THE**
22 **APPLICATION TO THE COMPANY'S WATER RATE SCHEDULE.**

1 **A.** Currently, the Company charges \$22.00 per residence per month. This amount
2 includes monthly water consumption of 10,000 gallons. For consumption in excess of
3 10,000 gallons per month, the Company imposes an additional charge of \$1.00 for each
4 additional 1,000 gallons. In its application, the Company proposes to increase the full-
5 service water charge to \$34.00 per month or single-family equivalent (“SFE”) for the first
6 10,000 gallons of water consumed. For consumption exceeding this amount, the
7 following additional fees would be applied:

Next 10,000 gallons	\$2.00 per 1,000 gallons
Next 20,000 gallons	\$2.50 per 1,000 gallons
Over 40,000 gallons	\$3.00 per 1,000 gallons

8
9 These rates will allow the Company to earn a reasonable level of revenue while the cost
10 to the customer will remain competitive with private and public water systems in the
11 surrounding area.
12

13 **Q. WHAT HAS THE COMPANY'S EXPERIENCE BEEN WITH THE COSTS OF**
14 **OPERATION SINCE ITS LAST RATE INCREASE?**

15 **A.** It has been almost sixteen (16) years since the Company’s last rate increase and,
16 in that time, the Company's expenses have increased across the board. The Company has
17 incurred increased operational expenses such as purchased power, employee salaries, and
18 the like. Other expenses, such as taxes, license fees and assessments have also risen.
19 Furthermore, increased federal and state regulations have changed the way in which
20 water utilities conduct their business. Additional costs have been placed upon water

1 utilities to comply with more exacting limits in both areas. These increased expenses are
2 reflected in the financial statements and the testimony of Ms. Jackie Watson which
3 clearly demonstrate that we are operating at a financial loss.

4
5 **Q. DID THE COMPANY EXPERIENCE ANY CUSTOMER GROWTH DURING**
6 **THE TEST YEAR?**

7 A. No, it did not. There is little opportunity for growth in the May River Plantation
8 Subdivision and only two lots remain undeveloped. Therefore, an increase in the
9 Company's rate schedule is the only realistic manner in which the Company can increase
10 its revenues to a level which exceeds its current expenses.

11
12 **Q. WHAT IS A RATE INCREASE DESIGNED TO ACCOMPLISH FOR THE**
13 **COMPANY?**

14 A. An increase in South Atlantic's current rates would generate additional revenues
15 that will allow the Company to move closer to being on a sound financial footing, to
16 allow it to raise additional capital, if necessary, and to increase its earnings to a more
17 reasonable level through fair charges to the consumer. Additionally, increased revenue
18 will allow the Company to continue to make necessary repairs and operate the system in
19 compliance with regulatory requirements.

20
21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 A. Yes, it does.